

GROWING A BUSINESS

STRATEGIES FOR BUSINESS EXPANSION

By Ann W. Cook

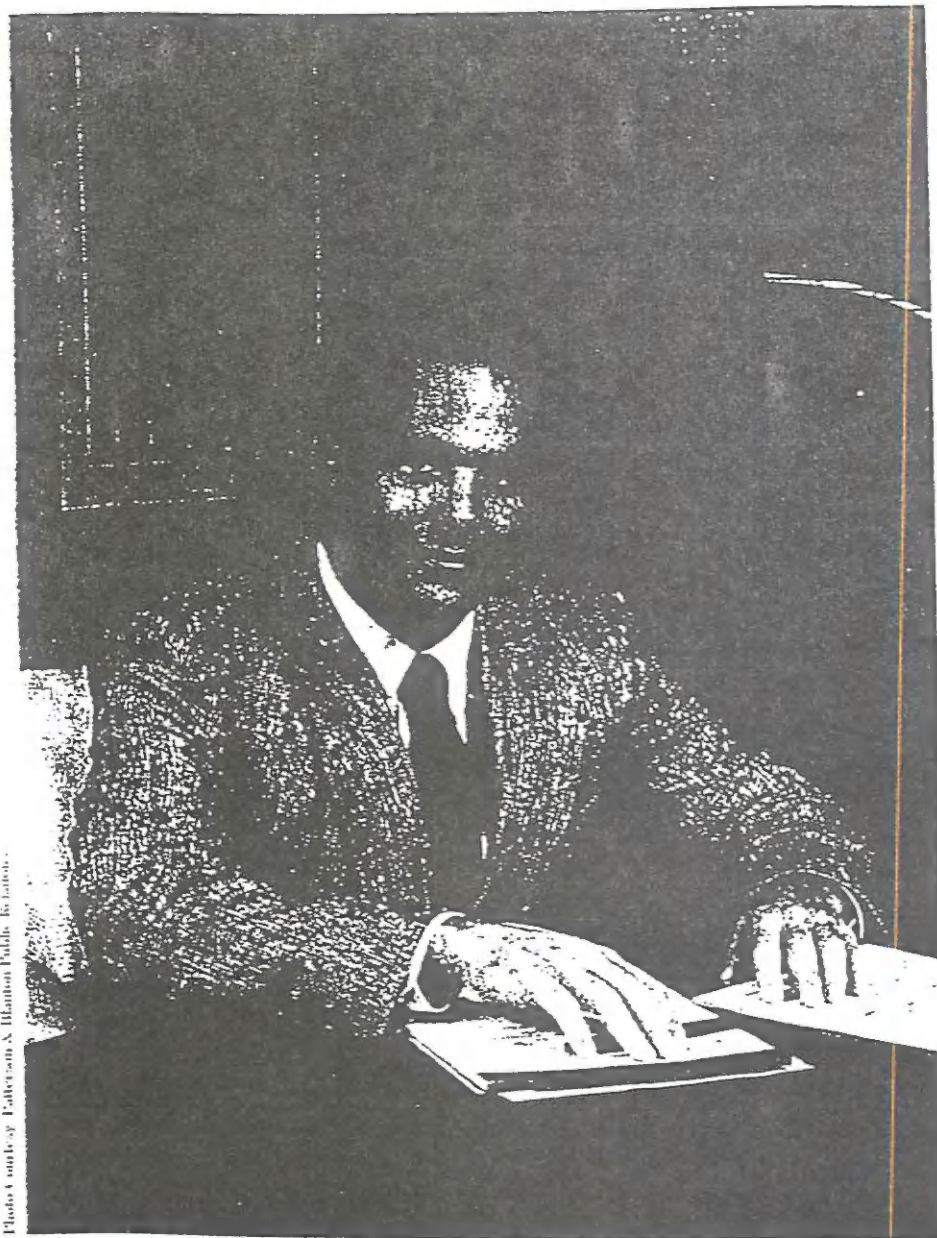


Photo Courtesy: Patterson & Blanton Public Relations

Bob Borochoff's restaurant survived hard times by branching out to include catering services. Whatever shape the economy's in, diversification is a sure way to boost profits.

ABOVE AND BEYOND

Faced with a Texas-twister-sized economic slump in the late 1980s, Houston restaurateur Bob Borochoff committed himself to a strategy that flew in the face of conventional wis-

dom. Instead of retrenching, he diversified.

"One of my first reactions was to cut expenses," Borochoff explains. "Everyone in town was doing this. But you reach a point where there's not much else to cut."

In a series of transactions,

Borochoff's company, Epic Restaurants Inc., bought and sold eight restaurants before settling on The Boston Sea Party in December 1988. By that time, Borochoff had already branched out, starting Epic Catering and Epic Special Events, which produces outdoor special events, such as concerts and festivals, in 1985.

"We were being asked to cater a lot of charity events. When the economy dried up, it became harder to get fund-raising dollars," Borochoff explains. "So a lot of organizations started throwing parties to solicit funds. That's where we came in."

In 1987, his company's sales were about \$1 million, with 50 percent from the catering and special events divisions alone. By last year, he had added four trucks, a warehouse and several staff members, and sales had quintupled. "Epic Catering and Epic Special Events really took off," says Borochoff. And while five years ago, he was working in the kitchens himself to hold down overhead, Borochoff now says, "I seldom have time to do anything more than walk through."

Diversification was the key to survival for Borochoff's business—and it's his recipe for success, even during recession.

It's a strategy large companies have long understood. Now small businesses are finding they profit by using many of the same techniques.

An October 1990 study in the *Journal of Small Business Management*, a magazine published by the West Virginia Bureau of Business Research, revealed the vast majority of small and medium-sized businesses decided to diversify to grow or achieve greater financial security.

In most cases, according to the study, the owners embarked on the diversification themselves rather than acquiring an existing company or product line from the outside, which is often the preferred means of diver-

sification for large corporations. Most smaller businesses lack the financial resources necessary to grow by acquisition.

But just because a small business doesn't acquire a going concern or proven products doesn't mean its risk or failure rate is any higher than that of a larger company. The study tracked the progress of diversification, disclosing that company profitability generally rises for up to three years as new product or service lines mature. From three to six years is the danger period within which most diversifications fail. Those that survive past six years are generally a success.

STEP LIGHTLY

Obviously, diversification must be undertaken carefully. You can maximize your chances of success by following some important steps.

First, look at what you already have in terms of equipment, vehicles, buildings, and people that could be more efficiently employed.

Amicale Industries Inc., a New York-based manufacturer of cashmere and camel's-hair cloth, realized it could easily and profitably turn its fabric into women's scarves. By adding a designer and salesperson, the company was able to use its existing plant and product to expand dramatically into an entire new market segment with minimum risk.

"We already made the fabric, and it was just a jump away to making scarves and shawls," explains Boris Shlomm, Amicale's president. The transition required Amicale to purchase some additional equipment, such as fringing and cutting machines. "We also needed a special salesperson because the [scarf and shawl] market is different," explains Shlomm. "This is an entirely logical extension. We've taken our fabrics from the apparel field into the accessory field, complementing our existing investment and knowledge."

Moreover, because capital investment is minimal, Shlomm says,

"this business does not threaten our survival, so we can afford to take the long-term view that the accessory field will continue to grow."

The second step is to examine your expertise. How can you use your knowledge more effectively to diversify into new areas and develop new customers?

The owners of California Amplifier Inc., a public company in Camarillo, California, recently realized that the military, a major customer for its microwave amplifiers, did not represent great growth potential.

"We were founded in 1981," says Thomas Ellsworth, California Amplifier's marketing manager. "The boom in defense contracts in the early '80s was a big plus for us. But over the last three years, the defense market started softening up."

Since the smaller commercial sector had greater potential, the

company created a new product line, including amplifiers for home-satellite television dishes and wireless cable systems. Using the same amplifier technology, techni-

cians and techniques, California Amplifier focused on this new product line. Within two years, the company had sold its entire military product division and now focuses exclusively on commercial amplifiers.

"Two years ago, we did \$10 million worth of defense work," says Barry Hall, CEO of California Amplifier. "Last year, we did \$11 million after we sold the defense division. And we're still adding more products."

The third step before diversifying is to survey your customers. Find out what new services or products they need. At the same time, survey your vendors or suppliers. They are good sources of ideas for diversification, and frequently spot new niches long before you do.

That's how Borochoff arrived at his idea for Epic Catering. "My vendors were a great source," he relates. "They always wanted to sell me

more food and kept telling me we ought to get into the catering business. They were right."

SPREAD THE WEALTH

New products or businesses do not necessarily have to be dramatic departures for your company. Sometimes repositioning an existing product for a new market is all it takes to increase your company's profits.

Amicale's Shlomm points out that diversifying into scarves and shawls was a way to keep cashmere in the public eye, thereby promoting the use of the fabric it makes for other manufacturers of coats and clothing. He notes, "Keeping cashmere in the consumer markets is good for our entire business."

Diversification can also mean targeting new customers for existing products, according to Pamela J. Roth, president and owner of P.J. Roth & Associates Inc., a Los Angeles marketing consulting firm.

"Our experience is that when most companies go to market with a product, they are thinking in terms of a niche. The problem is you can become very segment-oriented, causing your product to be too narrowly positioned. A manufacturer has to make sure he or she has squeezed all the juice out of every product that comes out of the shop," she says.

One of Roth's clients produced a Stress Control Card and booklet and sold 5 million in just nine months. Three years later, the client believed he had exhausted the market. But Roth suggested a repositioning. Repackaged and remarketed, the same product was introduced as The Habit Buster.

Another Roth client, with a failing line of beauty products marketed exclusively to Hispanic women, repositioned its products to promote an exotic look.

"Very few companies position their products broadly enough," Roth contends. "If you change the positioning, you often find a far broader market than you ever considered at the outset."

Wirt M. Cook heads IBM Corp.'s New Business Marketing group, which offers solutions to small and growing businesses.